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Guide to Climate-Related Disclosures for Banks, Asset Managers & Insurers

Executive Summary

Improving the quality of disclosures is vital to supporting the growth of green finance in Singapore. In this regard, the Green Finance Industry Taskforce ("**GFIT**") issued an implementation guide for climate-related disclosures by financial institutions ("**FIs**")[1] on 19 May 2021 ("**Guide**"). The Guide details the best practices that are aligned with the recommendations of the Financial Stability Board's Task Force ("**Task Force**") on Climate-Related Financial Disclosures ("**TCFD**").

As background, FIs are expected to make regular and meaningful disclosure of salient environmental risks applicable to their businesses. This is set out, amongst others, in the Monetary Authority of Singapore ("**MAS**") Guidelines on Environmental Risk Management for banks, asset managers, and insurers ("**ENRM Guidelines**") issued in December 2020.[2] In addition, FIs which are listed on the Singapore Exchange Securities Trading Limited (SGX-ST) are subject to mandatory sustainability reporting, with the primary components prescribed in the SGX Listing Rules to be included in reports on a "comply or explain" basis for listed issuers for their financial year ending on or after 31 December 2017.

By focusing on climate-related disclosures, the Guide supplements the ENRM Guidelines and GFIT's handbook that provides practical implementation guidance and good practices on environmental risk management issued in January 2021.[3] The Guide is relevant to FIs which are expected to meet the expectations of the ENRM Guidelines, namely (i) all banks, merchant banks and finance companies (collectively, "**Banks**"); (ii) fund management companies and real estate investment trust managers (collectively, "**Asset Managers**"); and (iii) insurers and reinsurers (collectively, "**Insurers**").

Presently, there are several standards and frameworks for sustainability reporting for various purposes that FIs may use as appropriate, such as the Global Reporting Initiative, the International Integrated Reporting Council and the TCFD. The Guide serves as a reference for FIs in making disclosures according to their chosen standard or framework.

This Update briefly explains what climate-related risks and opportunities are, with an overview of the main recommendations for disclosure in the Guide structured around four areas: governance, strategy,

[1] Financial Institutions Climate-Related Disclosure Document (Published May 2021), available here.
[2] Refer to our December 2020 Client Update titled "MAS Issues Environmental Risk Management Guidelines for Banks, Insurers and Asset Managers", available here.
[3] GFIT handbook titled "Handbook on Implementing Environmental Risk Management", available here. Refer to our February 2021 Client Update titled "GFIT Handbook for Implementing Environmental Risk Management for Banks, Insurers, Asset Managers", available here.

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risk management, and metrics and targets. We will also highlight certain sector-specific and business-specific matters for consideration by Banks, Asset Managers and Insurers.[4]

What are Climate-Related Risks and Opportunities

The Task Force has categorised climate-related risks in two major classes: (i) transition risks, being risks related to the transition to a lower-carbon economy; and (ii) physical risks, being risks related to the physical impacts of climate change.

Transition risks arise because transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes. These transition risks include risks pertaining to policy, legal risks, technology risk, market risk and reputational risk.

Physical risks resulting from climate change may be acute (i.e. event-driven) or chronic (longer-term shifts in climate patterns) and may also have financial implications for organisations.

Climate-related opportunities arise from efforts and initiatives to mitigate and adapt to climate change. These opportunities vary depending on the region, market, and industry in which an organisation operates – for instance, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets and building resilience along the supply chain, amongst others.

Governance

All FIs

As it is vital for investors and stakeholders to know whether the board of directors ("**Board**") and management have directed their minds to material climate-related issues, FIs are expected to disclose their governance around climate-related risks and opportunities. TCFD key recommendations on disclosure are set out below.

- ***Board's oversight of climate related risks and opportunities.*** An FI should consider including processes and frequency by which the Board and/or committees (such as audit and risk committees) are informed about climate-related issues, and whether the Board and/or committees consider climate-related issues when reviewing and guiding various aspects of FIs operations – these include incorporating climate-related considerations in the overall corporate strategy, risk management policies, annual budgets, business plans, performance objectives, implementation

[4] For each key recommendation, the Guide also provides three possible levels of reporting maturity varying in extent and scope of reporting. These differ and/or should be tailored to the specific sector/industry.

monitoring processes, and overseeing capital expenditure initiatives. An FI should also describe how the Board monitors and oversees progress against goals and targets for addressing climate-related issues.

- ***Management's role in assessing and managing climate-related risks and opportunities.*** An FI should consider including information pertaining to whether the FI has assigned climate-related responsibilities to management-level positions or committees. If so, whether such management positions or committees report to the Board or a committee of the Board and whether those responsibilities include assessing and/or managing climate-related issues; a description of the associated organisational structure(s); processes by which management is informed about climate-related issues; and how management (through specific positions and/or management committees) monitors climate-related issues.

Strategy

All FIs

Investors and stakeholders will generally be concerned with the process the FI takes in managing its short, medium, and long-term business strategy. As such, an FI is expected to disclose the actual and potential impacts of climate-related risks and opportunities on the FI's business(es), strategy, and financial planning where such information is material. TCFD key recommendations on disclosure are set out below.

- ***Climate-related risks and opportunities the FI has identified over the short, medium, and long term.*** FIs should provide information including a description of what it considers to be the relevant short, medium, and long-term time horizons, taking into account the useful life of the FI's assets or infrastructure and how climate-related issues often manifest themselves over the medium and longer terms; specific climate-related issues potentially arising in each time horizon that could have a material financial impact on the FI and make a distinction between transition and physical risks; process(es) used to determine which risks and opportunities could have a material financial impact on the FI, as well as the risks and opportunities by sector and/or geography, if appropriate.

- ***Impact of climate-related risks and opportunities on the FI's businesses, strategy, and financial planning.*** Building on the disclosures above, additional information to be included is how identified climate-related issues have affected the FI's businesses, strategy, and financial planning; the impact on the FI's businesses and strategy in areas such as products and services, supply chain and/or value chain, adaptation and mitigation activities, investment in research and development, and operations; and how climate-related issues feature in the FI's financial planning process, the time periods used, and how these risks and opportunities are prioritised. Disclosure should holistically show the interdependencies among the factors that affect their ability to create value over time. Where applicable, FIs should also consider including in their disclosures the impact of climate-related matters on financial planning as well as describing the climate-related scenarios employed.

- ***Resilience of FI's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.*** FIs should describe how their strategies are resilient to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks. FIs should also consider discussing whether their strategies may be affected by climate-related risks and opportunities; how their strategies might change to address such potential risks and opportunities; and the climate-related scenarios and associated time horizon(s) considered.

Banks

In disclosing the impact of climate-related risks and opportunities each of its strategies, Banks should describe credit exposure of significant concentration to carbon-related assets. Additionally, Banks should consider disclosing their climate-related risks (transition and physical) in their lending and other financial intermediary business activities.

Asset Managers

Asset Managers should describe how climate-related risks and opportunities are factored into relevant products or investment strategies, as well as how each product or investment strategy might be affected by the transition to a lower-carbon economy.

Insurers

Insurers should describe the potential impacts of climate-related risks and opportunities and provide supporting quantitative information where available on their core businesses, products, and services. This can include information at the business division, sector, or geography levels; how the potential impacts influence client, cedent, or broker selection; and whether specific climate-related products or competencies are under development, such as insurance of green infrastructure, specialty climate-related risk advisory services, and climate-related client engagement.

In addition, Insurers that perform climate-related scenario analysis on their underwriting activities should provide information relating to the description of the climate-related scenarios used and the timeframes used (e.g. short, medium, and long-term milestones). Description of climate-related scenarios can include the critical input parameters, assumptions and considerations, and analytical choices. In addition to a 2°C scenario, Insurers with substantial exposure to weather-related perils should consider using a greater than 2°C scenario to account for physical effects of climate change.

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Risk Management

All FIs

To help investors and stakeholders assess the FI's overall risk profile and risk management activities, an FI is expected to disclose how it identifies, assesses, and manages climate-related risks. TCFD key recommendations are set out below.

- ***FI's processes for identifying and assessing climate-related risks.*** FIs should describe their risk management processes for identifying and assessing climate-related risks. It is vital that FIs describe how they determine the relative significance of climate-related risks in relation to other risks. FIs should also describe whether their risk policy takes into account existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) and other relevant factors. Additionally, FIs should consider disclosing the processes for assessing the potential size and scope of identified climate-related risks and to include definitions of risk terminology used or references to existing risk classification frameworks.

- ***FI's processes for identifying, assessing, and managing climate-related risks and how these are integrated into the FI's overall risk management.*** FIs should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, FIs should describe their processes for prioritising climate-related risks, including how materiality determinations are made within the FIs.

Banks

Banks should consider characterising their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk, as well as describing any risk classification frameworks used, for instance the Enhanced Disclosure Task Force's framework for defining "Top and Emerging Risks".

In addition, Banks should describe credit risk (such as a client's "Probability of Default or Loss Given Default increases" due to climate risk) and counterparty risk (such as derivatives client defaulting while bank is in the money). Banks can also consider describing whether there are sectors that should no longer be supported, when to exit relationships and when to hedge, as well as exposures to physical and transition risk within their own property and the business model, including concentrations of risk at portfolio and transaction level, and by geographical footprint.

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Asset Managers

To improve data availability and their ability to assess climate-related risks, Asset Managers should disclose engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks, where appropriate.

Asset Managers should also describe how they identify, assess, and manage material climate-related risks for each product or investment strategy, for instance by including a description of the resources and tools used in the process and whether it is based on internal data or external data.

Insurers

Insurers should describe the processes for identifying and assessing climate-related risks on (re)insurance portfolios by geography, business division, or product segments including physical risks (from changing hanging frequencies and intensities of weather-related perils), transition risks (resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation,) and liability risks (that could intensify due to a possible increase in litigation).

Additionally, Insurers should describe key tools or instruments, such as risk models, used to manage climate-related risks in relation to product development and pricing. Insurers should also describe the range of climate-related events considered and how the risks generated by the rising propensity and severity of such events are managed.

Metrics and Targets

All FIs

To help investors and stakeholders evaluate the FI's possible risk-adjusted returns and compare FIs within a sector, an FI is expected to disclose metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. TCFD key recommendations on disclosure are set out below.

- ***Metrics used by the FI to assess climate-related risks and opportunities in line with its strategy and risk management process.*** FIs should provide the key metrics used to measure and manage climate-related risks and opportunities, including metrics on climate-related risks associated with water, energy, land use, and waste management where applicable. For material climate-related issues, disclosure may include whether and how related performance metrics are incorporated into remuneration policies. Where relevant, FIs may provide their internal carbon prices and climate-related opportunity metrics, for instance revenue from products and services designed for a lower-carbon economy. To allow for trend analysis, metrics should be provided for historical periods. Where a trend may not be apparent, FIs may

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consider providing a description of the methodologies used for the calculation or estimation of climate-related metrics.

- **Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks**. FIs should calculate GHG emissions as applicable to its overall business according to the GHG Protocol methodology and consider providing related and generally accepted industry-specific GHG efficiency ratios. GHG emissions and associated metrics may be provided for historical periods to allow for trend analysis. Where a trend may not be apparent, FIs may consider describing the methodologies used for calculation or estimation.

- **Targets used by FIs to manage climate-related risks and opportunities and performance against targets.** FIs should describe their key climate-related targets relevant to their overall business such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints and other goals such as efficiency or financial goals, financial loss tolerances, avoided GHG emissions through the entire product life cycle or net revenue goals for products and services designed for a lower carbon economy. In describing targets, FIs may consider including whether the target is absolute or intensity based, timeframes over which the target applies, and key performance indicators to assess progress. Where it may not be apparent, FIs should describe the methodologies used for calculation or estimation.

Banks

Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term. Metrics provided may relate to credit exposure, equity and debt holdings, or trading positions, broken down by industry or sector, geography, credit quality, and average tenor.

Banks should also provide the amount and percentage of carbon-related assets relative to total assets, as well as the amount of lending and other financing connected with climate-related opportunities.

Asset Managers

Asset Managers are expected to describe the metrics used to assess climate-related risks and opportunities in each product or investment strategy (including the decision-making and monitoring protocols), including changes made to the matrices over time.

In addition, Asset Managers are also expected to provide the weighted average carbon intensity (where data is available or can be reasonably estimated) and such other matrices for each investment product or investment strategy, as applicable.

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Insurers

Insurers should provide aggregated risk exposure to weather-related catastrophes of their property business (i.e. annual aggregated expected losses from weather-related catastrophes) by relevant jurisdiction. They can also consider describing how risk takers are incentivised to consider climate risk as part of their day-to-day activities.

If you have any queries on the above development, please feel free to contact our team members below who will be happy to assist.

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